UNC Workgroup 0435 Minutes
Arrangements to better secure firm gas supplies for GB customers

Friday 16 November 2012

at the Tata Steel Office, 2nd Floor, 30 Millbank, London. SW1P 4WY

Attendees

Tim Davis (Chair)	(TD)	Joint Office
Mike Berrisford (Secretary)	(MB)	Joint Office
Alex Whitmarsh	(AW)	Ofgem
Alison Meldrum	(AM)	Tata Steel
Antonio Ciavolella	(AC)	BP
Charles Ruffell	(CR)	RWE npower
Chris Wright	(CW)	British Gas
Claire Thorneywork	(CT)	National Grid NTS
Darren Lond	(DL)	National Grid NTS
Dave Mitchell	(DM)	Scotia Gas Networks*
Jeff Chandler	(JC)	SSE*
Julie Cox	(JCo)	Energy UK
Lorna Lewin	(LL)	DONG Energy
Malcolm Arthur	(MA)	National Grid NTS
Richard Fairholme	(RF)	E.ON UK
Roddy Munroe	(RM)	Centrica Storage
Roger Crane	(RC)	Scotia Gas Networks*
Shelley Rouse	(SR)	Statoil
Steve Catling	(SC)	Scotia Gas Networks*
Tom Farmer	(TF)	Ofgem
Will Barber	(WB)	Ofgem

** via teleconference*

1. Introduction

TD welcomed all to the meeting.

1.1 Review of Minutes

The minutes of the previous meeting were accepted.

1.2 Review of Actions

Action 0435 11/01: Joint Office (TD) to agree meeting plan with National Grid NTS and British Gas.

Update: TD confirmed that the action had been completed.

Closed

2. Service provision

TD explained that National Grid NTS had prepared some overheads to help guide the meeting through the questions posed by British Gas. MA explained that, whilst the presentation does not directly answer the questions, it might help to support discussion.

Asked whether or not the proposed solution is close to an Operating Margins (OM) style mechanism, DL suggested this would become clearer as the presentation progresses. It was agreed that a presentation on OM would prove beneficial, which MA said DL would bring to the next meeting.

In considering whether the proposed arrangements would be limited to NTS connections only, TD remarked that there should not be a barrier to accessing the service from any party. Regarding whether National Grid NTS should contract with Shippers or directly with customers, the Workgroup discussed whether a change to the Gas Act would be beneficial, or whether an alternative solution could be found, such as a class exemption.

Asked whether or not a Transporter/Supplier/Shipper process and communication chain potentially raised any issues, some parties remained concerned about the inclusion of the Shippers in such a chain of command. Additionally, it was questioned as to whether or not in the event that communications went from NTS to the customer, the customer could then be relied upon to contact their respective DNs. It was suggested that being able to aggregate various networks into one single value would be heavily dependent upon (geographical) location considerations.

Asked how often in terms of usage OM services had been triggered in the last 5 years, DL advised that it was twice. JCo noted that discussions had already taken place around GDW/Day Ahead aspects and that the OM service is normally a quick (interim) response mechanism and contracts with direct connects only.

When asked where Traders fit in with the new proposals, MA suggested that they neither hold any gas or have any responsibility for gas per se and that the Workgroup also needs to think of the wider implications of National Grid NTS potentially being able to contract directly with consumers – one suggestion was to consider adoption of a form of proxy contract arrangement. A new action was then assigned to all parties to consider the potential benefits of National Grid NTS being able to contract directly with customers/consumers. Asked if National Grid NTS would be happy to contract directly with customers/consumers if the intricacies could be resolved, MA indicated that in theory this could be accommodated, subject to there being no adverse (primary) Gas Act legislation impacts – one suggestion being to seek a form of exception based solution.

In considering the type of services being procured, MA envisaged this as being in terms of a physical, rather than capacity product and accepted that tranche levels and triggers and storage aspects would need consideration in due course. CW suggested that the Workgroup could consider developing a product that does not actually involve physical gas movements.

Moving on, MA wondered how best to determine whether or not the option fee is/was economically efficient. Some parties believe that the Workgroup needs to consider what the option fee is delivering and how many units of gas can actually be released – perhaps the answer lies in adopting an option fee with no exercise fee based solution. CW pointed out that in recent industry debate around the Significant Code Review, it was deemed that there is a need for a solution based on the provision of both an option and exercise fee. When asked, the Ofgem representatives present were unable to provide a definitive view at this moment in time, as they need to fully understand customer's views before being able to commit. AM pointed out that not all parties have 'back up fuel' to fall back on, whilst TF suggested that parties need to be mindful of their respective positions before making any commercial decisions – in short, the crux is how much (£) the option fees turn out to be. When asked, MA suggested that the 2011/12 OM fees were circa £20 million before agreeing to look to provide a trend indication for both the option and exercise fees and volumes involved (subject to the caveat on potential limitations criteria) – in any case, probability identification is very difficult.

Moving on to consider the system diagram slides, MA confirmed that in theory parties that have purchased gas in advance (at a given price), but do not subsequently use it, should be able to cash-out. Several concerns were voiced, such as the fact that Shippers already have a similar type of contracted option and there could be a price potential for double billing issues associated with turndown. Other concerns around whether or not this unused gas finds it's way into either, a National Grid or Shipper portfolio, and the potential impact on ECU (30 day SAP) mismatches were raised – it was suggested that perhaps one option would be to consider taking the option price based on the VoLL, rather than, or as well as, the exercise price. MA observed that penalties and monitoring would be considered at a future meeting before suggesting that the Workgroup could look to provide a form of 'balancing' style solution to satisfy requirements, as there is clearly a need to incentivise parties (Suppliers) to continue to deliver their gas into the system to ensure we continue to meet demand. Ofgem representatives present agreed that an incentive mechanism is appropriate, before suggesting that this could/should be based around the 30 day SAP principles.

It was agreed that the forthcoming OM presentation by National Grid NTS would assist parties in understanding requirements better and that following such presentation the Proposer of the modification might wish to amend the proposal to reflect discussions.

Moving on to consider what payments non contracted demand side parties receive if and when interrupted in a Stage 2+ emergency, MA warned that care would be needed to avoid driving down payments to below the User's VoLL – one solution being to pay option, but not the exercise price. Some parties raised their concerns about potential Firm Load Shedding impacts, (especially relating to 'super' firm Users) and National Grid's views on both volumes and their associated timescales. MA suggested that perhaps the Workgroup could consider a form of remuneration based on the parties concerned receiving either nothing, £10/£20/£30 per therm. JCo reminded those present that there is never 100% security of supply, regardless of the market sector concerned and that ultimately it is about commercial risk management and mitigation – it was noted that it is the range of payment that needs to be identified and the modification would subsequently need to specify the various options. *(Please refer to the discussions during item 5.0 below on the Gas Forum Alternative SCR Gas Security of Supply Proposals – Treatment of Costs and Payment of Compensation under NGG-facilitated DSR Proposal matrix table below for more details.)*

In quickly moving to review the 'Detailed assumptions and questions to be addressed' slide from the Centrica presentation provided at the initial Workgroup meeting (www.gasgovernance.co.uk/0435/011112), MA focused attention on the consideration of the potential contractual differences for the MN/GDW triggers seeking a view on whether either is acceptable. CW also suggested that the Workgroup also needs to consider what happens when an Emergency over takes all other planned considerations – one suggestion put forward was the possible adoption of an 'after the event reconciliation' style process where impacted parties receive the option fee only, as they were never exercised. JCo suggested that consideration of NEC aspects and how these potentially impact on any proposed solutions (inc. duration of product, firm load shedding call off / on contractual aspects and GDW1 process implications). Additionally, provision of a National Grid retendering process may prove beneficial.

When asked, CW confirmed that he was reasonably happy with the consideration of the three Service provision questions on the agenda.

3. Calculating and securing DSR Volume

MA opened this part of the presentation by advising that National Grid remains reasonably comfortable that their demand estimation modelling (winter outlook &/or 10 year statement etc.) is robust. He went on to suggest that perhaps we could suggest forgetting the supply/demand aspects and focus on the largest system volume being lost – similar in concept to the European model approach, although it may be necessary to obtain a policy decision on what aspects of demand we seek to protect (i.e. domestic only or all sectors). Responding, RM believed that the key concern is security of supply, rather than price and wondered whether the Workgroup proposes 'benchmarking' against DECC or European requirements. TF observed that there are different standard levels for either the DECC or the European model (M-1 etc) involved that would need to be considered. TD reminded parties that there is a (Supplier) Licence obligation to ensure domestic supply is maintained for a 1:50 winter. It was agreed that it may be wise to await the forthcoming DECC decision in this area to be published. It was noted that their (DECC's) work had identified small shortfalls in supply v's demand during extended cold periods.

Looking at the volumes that providers include within their respective tenders, it was noted that the capacity of the system is greater than the 1:20 demand expectation. In quickly moving back to review the 'Detailed assumptions and questions to be addressed - Volume Calculation' slide from the Centrica presentation provided at the initial Workgroup meeting, discussion centred around how to prevent parties submitting spurious values (i.e. 999.99 etc.) that could/would potentially be impacted by break out (capacity charge) aspects. CW advised that in developing this part of his presentation he was concentrating on the exercise price and potential marginal price considerations – he questioned whether or not the Workgroup considers this to be such a complete process that in reality the problem does not really exist anyway. He went on to suggest that this matter could be considered in due course, especially what limits should be set and timescales involved (i.e. on an annual basis perhaps). MA suggested that this once again focuses attention on aspects of the Gas Forum matrix table and ultimately how we seek to build the solution.

MA suggested that as far as the Calculating and securing DSR volume agenda questions was concerned, the forthcoming OM presentation should provide some welcomed clarity around the matter that could assist parties in answering the three questions posed. It was also acknowledged that awaiting the release of the forthcoming DECC proposals would/could prove beneficial although more process related discussions (around option fee proposals and demand side inclusions, top-up provisions, annual arrangements, contract timelines and frequencies (i.e. 5 years out aspects), and finally modulating bidding for DSR (i.e. shaping bids to take into account seasonal considerations and layering aspects etc.)) may be required in due course.

4. Eligibility Criteria

During discussions the consensus view was that both demand and supply side turn down should be considered along with storage and ASEP aspects. In considering availability aspects, CW suggested that the Workgroup should also look at NDM eligibility and volume impacts (inc. NDM risks potentially over complicating matters, especially when Shippers do not want to be demand aggregated). He also believes that both locational and within day aspects would need consideration. As far as response times are concerned, MA confirmed that the current OM response time is 2 hours. He went on to suggest that perhaps an exclusion clause for instances where parties do not respond could prove beneficial and that this could be 'linked' to differing option fee levels. Some believe that this modification proposal is superior to the Ofgem SCR in this area. However, having said that, several parties remain concerned about the potential for limiting supply and demand based on eligibility criteria - one solution suggested in response to this concern was to base this on a ranking mechanism and potential response rates (i.e. how quickly parties come off the system when asked to do so) to possibly be supported by a form of penalty clause mechanism to ensure that parties actually do what they say they will.

In considering whether or not, the DN's would/could utilise their own storage gas during an emergency, CT suggested that this 'normally' happens once a Stage 1 is triggered.

CW indicated that he would now be giving due consideration to whether to discount (NTS) Interconnectors from his modification, including giving special consideration around the IUK aspects (plus mechanisms relating to how this might work), the max/min availability (inc. preferred contract partnerships), the max number of tranches, and the adoption of suitable notice periods (i.e. 2hrs).

5. AOB

Gas Forum Alternative SCR Gas Security of Supply Proposals – Treatment of Costs and Payment of Compensation under NGG-facilitated DSR Proposal matrix table discussions

Please note: a copy of the document can be found on the Gas Forum web site at: http://www.gasforum.co.uk/news-and-events/news/83-gas-forum-alternative-proposals-for-ofgems-security-of-supply-scr

CW opened by providing a brief background in to the investigations undertaken by the Gas Forum and the preparation of the subsequent document before focusing discussion on the 'Treatment of Costs and Payment of Compensation under NGG-facilitated DSR Proposal' matrix table.

MA believes that most parties are reasonably happy with the first two columns. However, WB remained convinced that clarity around the Workgroup's guiding principles (i.e. where do we expect to place the risk of disconnection) is needed before moving on to address any of the issues contained within the table. Responding, CW suggested that the risk of disconnection falls squarely at the feet of (eligible) consumers, and where this proves not to be the case, the prevailing arrangements should apply – he anticipates that alternative views would be forthcoming during the development of the modification (0435).

Asked whether or not Ofgem would automatically reject the modification if it eventually proposes a solution which is counter to the three core SCR principles, TF suggested that this would not necessarily be the case, as each UNC modification is judged on its own merit. JCo suggested that there would be benefit in Ofgem providing some additional clarity around their SCR position with regard to DSR and consumer (compensation) protection considerations (i.e. can they identify any essential requirements, or unacceptable proposals). TF agreed to provide a view at the next meeting.

In examining the table in more detail, CW felt that further consideration of such items as the exercise options is needed in due course. CT pointed out to all present that aspects relating to during and after a GDE falls under the auspices of NEC considerations and requirements, therefore to suggest that National Grid is able to do anything additional, over and above current requirements, may be challenging (i.e. LDZ's have priority during reinstating supplies). Furthermore, whilst the UNC prescribes a set sequence, the actual practise may be different – it was noted that a see-saw effect can often be witnessed during any restoration of supply process.

CW went on to suggest that in principle, the basics of the table are correct, before acknowledging that some tweaking may be required in due course. JCo sees the crux of the process as being all about trying to incentivise parties to participate and therefore believes a day ahead (short term) auction style process could be introduced to resolve some of the issues highlighted by the table such as communication with consumers etc.

MA voiced his concerns around the option price aspects, especially where contracts already exist – perhaps there would be benefit in merging the first two columns and thereafter utilise a price stack style solution (sleeping bids on separate platforms). In considering just utilising an exercise price option based solution, it was noted that the OCM option has issues around nominations that would need addressing. However, MA agreed that removing the option price approach would potentially remove some key issues. JCo went on to consider whether or not waiting for a GDW to be called before parties look to make their (sleeping) bids would prove advantageous, whilst TD reminded those present that whichever process is advocated, it has to be essentially effortless. RF remained unconvinced of the real benefits to Shippers in undertaking the above suggestions, preferring to keep the option and exercise based solution.

Asked whether the exercise price in this example refers to pre-load shedding, AM confirmed it does. CT suggested that ideally the process should look to National Grid to instruct off (exercise bid) and thereafter anyone should then be able to accept the bid(s). In looking to summarise discussions, it was agreed that one possible solution is for adoption of an option and exercise price up to a given volume supported by a (later) top-up mechanism at the exercise price. At this point, it was noted that currently nothing in the modification states that you need both an option and exercise fee. TD observed that the DN's had looked at adopting 'fixed' options and exercise elements as a means of preventing potential abuse of the system.

6. Workgroup Process

4.1 Agree actions to be completed ahead of the next meeting

The following actions were assigned:

Action 0435 11/02: National Grid NTS (DL) to provide an Operating Margins presentation, covering option and exercise fees and volumes involved.

Action 0435 11/03: All to consider whether it would be beneficial for National Grid NTS to be able to contract directly with customers.

Action 0435 11/04: Ofgem (TF) to provide clarity around Ofgem's SCR position with regard to essential requirements for DSR and consumer compensation.

5. Diary Planning

The Workgroup is scheduled to meet:

06 December, Elexon

17 December, Energy Networks Association

Action Table

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0435 11/01	01/11/12	2.	Agree meeting plan with National Grid NTS and British Gas.	Joint Office (TD)	Update provided. **Closed**
0435 11/02	16/11/12	2.0	Provide an Operating Margins presentation, covering option and exercise fees and volumes involved.	National Grid NTS (DL)	Due 06 December
0435 11/03	16/11/12	2.0	Consider whether it would be beneficial for National Grid NTS to be able to contract directly with customers	All	Pending
0435 11/04	16/11/12	5.0	Provide clarity around Ofgem's SCR position with regard to essential requirements for DSR and consumer compensation	Ofgem (TF)	Due 06 December